1.1.2 OSC Notice 11-777 Notice of Statement of Priorities for Financial Year to End March 31, 2018

OSC NOTICE 11-777

NOTICE OF STATEMENT OF PRIORITIES FOR FINANCIAL YEAR TO END MARCH 31, 2018

The *Securities Act* (Act) requires the Ontario Securities Commission (OSC or Commission) to deliver to the Minister of Finance by June 30th of each year a statement from the Commission setting out its priorities for its current financial year in connection with the administration of the Act, the regulations and rules, together with a summary of the reasons for the adoption of the priorities.

In the notice published by the Commission on March 23, 2017, the Commission set out its draft Statement of Priorities (SoP) and invited public input in advance of finalizing and publishing the 2017–2018 Statement of Priorities. Twenty-one responses were received which focussed on a wide range of issues.

The OSC appreciates the thoughtful feedback and unique insights provided by commenters. On balance, the feedback was broadly supportive of the overall direction of the OSC goals and proposed priorities. In addition to feedback on the identified priorities, commenters highlighted a range of noteworthy items and issues including:

- the importance of the efforts and achievements of the OSC Investor Office in expanding investor engagement, research, education and outreach and bringing new perspectives such as elements of behavior to policy-making and operations
- the growing financial relevance to investors of environmental, social and governance (ESG) factors and the need for ESG disclosure by companies
- the importance of post-implementation review of policies and rules to confirm they are achieving their desired outcomes
- innovative initiatives such as OSC Whistleblower, Launchpad and the CSA Regulatory Sandbox
- the importance of regulatory harmonization both internationally and across the CSA

The OSC continues to receive comments focused on its pace of regulatory development for various initiatives. Some commenters noted that the pace of change should be slowed down to allow more time for consultation, but many clearly indicated that they would like to see faster implementation of regulatory changes. The OSC remains committed to policy development that balances the desire to be timely with the need to achieve harmonized outcomes that best meet the needs of Ontario investors and market participants.

A high level summary of key comment areas and our responses is set out below:

1. *Our proposed priority to introduce a Best Interest Standard and finalize proposals on targeted reforms under NI 31-103 – Registration Requirements, Exemptions and Ongoing Registrant Obligations to enhance the advisor/client relationship remains a significant area of focus for the OSC. A number of comments were also provided on related issues such as proficiency and titles for advisors. Commenters remain divided on this issue and set out positions for and against the introduction of a Best Interest Standard.*

   The CSA is united on moving forward with targeted reforms to improve the client-registrant relationship. In addition, Ontario and New Brunswick are committed to bringing forward a Best Interest Standard. The OSC will continue to:

   - work to define and introduce a regulatory best interest standard in Ontario
   - work with the CSA to introduce targeted, harmonized reforms to strengthen the standard of conduct and make the client-registrant relationship more centered on the interests of the client

   The OSC will also be examining the impact that advisor titles and proficiency standards have on investor protection as part of this priority.

2. *Embedded commissions and compensation arrangements in mutual funds received a significant number of responses. There is no clear commenter consensus on this issue. On balance investor advocates supported measures to discontinue embedded commissions and other forms of compensation. Other commenters cited negative outcomes, such as reduced access to advice, which have been documented in other jurisdictions where embedded compensation arrangements were no longer allowed.*

The OSC believes that investors must be able to understand the true costs of their investments, the costs of buying and holding their investments, and the cost of the advice they receive. The current embedded fee model is not well understood by investors and embedded fees raise conflicts that could incent advisors to recommend funds that benefit the advisor ahead of the investor. The OSC remains committed to achieving an evidence-based resolution to the use of embedded compensation structures. Following further dialogue with stakeholders the OSC will develop and present policy options and recommendations to the Commission and CSA Chairs later this year.

3. *Commenters continued to highlight seniors' issues as a growing area of risk requiring more focus.*

Seniors and vulnerable investors are important groups that require attention. The OSC recently established a new external Seniors Expert Advisory Committee to increase focus on this group of investors. The committee's mandate is to provide expert opinion and input on various policy, operational, education and outreach activities of the OSC. The OSC Investor Office has planned a number of initiatives to address these and other key investor protection issues, including developing a focused seniors strategy to identify opportunities and provide a framework to focus its efforts on the particular needs of seniors.

4. *There was strong support for continued focus on the Women on Boards and Executive positions initiative.*

The OSC remains committed to this important issue and will consider the need for additional measures if required.

5. *Commenters commended the OSC's innovative approaches and efforts to support Fintech entities. One commenter suggested that the OSC should broaden the use of this type of collaborative, supportive approach to other market participants.*

The OSC will continue to strive to foster an innovation-friendly market where entrepreneurs can flourish in a regulated industry where essential investor protections are in place. The OSC will examine opportunities to apply the learnings gained through this approach in its dealings with other market participants. The OSC believes that regulatory rules must protect investors – but they must also make sense for all businesses, including emerging ones.

6. *Commenters were consistent in their support for the need for cybersecurity measures. Specifically, some commenters suggested that more specific guidance would be useful to allow them to better understand what they need to do to meet compliance expectations in this area.*

The OSC will continue to provide guidance to market participants including reporting on the results of the cybersecurity roundtable and registrant survey.

7. *Subsequent to publishing the draft SoP, the Ontario government announced its plan to transfer regulatory oversight of syndicated mortgage investments from the Financial Services Commission of Ontario to the OSC. Syndicated mortgages were also noted in the feedback received as an area the OSC should take a more active role.*

The OSC will be adding a priority to set out the work required to address this issue.

8. *Various commenters provided suggestions related to data collection and the National Systems Renewal Program initiative. There was consensus on the need for better collection and use of data. Comments focused on system interface functionality, simplification of data requests (e.g. OSC Risk Assessment Questionnaire) and efficiency in the flow of information.*

We appreciate the comments and will take them into consideration in the work underway to replace the national systems.

9. *A number of commenters suggested additional regulation, such as required disclosure of environmental, social and governance (ESG) factors that measure the sustainability and ethical impact of an investment in a company.*

Companies already have an obligation to disclose material environmental and governance issues. We acknowledge the continued importance of disclosures in these areas and are monitoring developments to assess whether additional or new forms of disclosure are required.

10. *Various commenters suggested including shareholder democracy issues such as "say on pay", majority/empty voting and proxy voting as an SoP priority.*

We continue to monitor developments in respect of shareholder democracy issues. We plan to address these issues through work that is underway as part of our business plans.

11. *There was strong support for our priority to strengthen the powers and support for the Ombudsman for Banking Services and Investments (OBSI). A number of commenters suggested that more should be done (e.g. establishment of a Restitution Fund) to provide restitution to investors when they have suffered losses due to breaches of securities laws.*

    The OSC agrees that an effective and fair dispute resolution process, including complaints handling and redress mechanisms that are accessible, affordable, independent, fair, accountable, timely and efficient, is a key element of investor protection, especially if it includes the ability to impose binding decisions. The OSC will analyze the OBSI independent evaluator's findings and recommendations along with other stakeholder input in determining what steps to consider in response.

12. *A number of commenters suggested that the OSC assign additional resources to monitor the recent expansion of the exempt market to confirm compliance with the rules and detect and resolve unintended consequences before retail investors are harmed.*

    The OSC agrees with these comments and oversight of these markets will be undertaken by our operational (e.g. compliance) branches.

13. *The proposed priority on reducing regulatory burden was broadly supported by commenters who suggested that rising regulatory costs can adversely affect competitiveness, stifle innovation and lead to regulatory arbitrage.*

    We believe that our markets are better able to compete, innovate and flourish with appropriate regulation. Regulatory costs should be proportionate to the regulatory objectives sought. The OSC is committed to re-examining our rules and processes to ensure they are appropriate, necessary and relevant. Our objective is to reduce regulatory burden wherever possible, as long as appropriate safeguards for investors are in place.

14. *Commenters were generally supportive of the OSC's role in supporting the transition to the Capital Markets Regulatory Authority (CMRA). However, unlike last year, some commenters expressed concerns including the degree to which harmonization will be achieved and whether the CMRA structure will be as effective for Ontario as the OSC is today.*

    The CMRA project is intended to give Canadians a straightforward and uniform approach to capital markets regulation and we remain committed to the creation of a cooperative national effort.

The OSC's core regulatory work will always be its primary area of focus. Our SoP sets out our highest priority areas, what we will deliver during the year under those priorities and how we will measure our performance. As noted above, we have revised our 2017-2018 SoP to include an additional priority related to syndicated mortgages. The other important initiatives and issues identified for inclusion by various commenters will be provided to staff for consideration and most of these are already addressed within our branch business plans or will be considered for future work.

All of the comment letters are available on our website www.osc.gov.on.ca. The SoP will serve as the guide for the Commission's operations. Following delivery of the SoP to the Minister, we will also publish on our website a report on our progress against our 2016–2017 priorities.

[Editor's Note: The 2017-2018 Statement of Priorities follows on separately numbered pages. Bulletin pagination resumes at the end of the Statement.]

Ontario Securities Commission 2017 – 2018 Statement of Priorities

Our 2017 – 2018 Priorities

Our 2017-2018 Statement of Priorities (SoP) sets out the priority areas on which the Ontario Securities Commission (OSC) intends to focus its resources and actions in 2017-2018. Each of the priorities set out in the pages that follow is aligned under one of the five OSC regulatory goals. Nine priorities from our prior year SoP are being carried forward with the next phase of work. Four priorities were not carried forward, as the remaining work is minimal or is now part of our daily operations. Our significant work in the international regulatory environment will continue but was not identified as a priority this year. Insights into emerging issues and standards gained through our international engagement will continue to be integrated into our policy development. The 2017-2018 SoP includes five new priorities: investor redress, fintech, regulatory burden reduction, collection of sanctions and our transition to CMRA.

Deliver strong investor protection

The OSC will champion investor protection, especially for retail investors

- Publish regulatory reforms to define a best interest standard and targeted reforms to improve the advisor/client relationship
- Define regulatory action needed to address embedded commissions
- Advance retail investor protection, engagement and education through the OSC's Investor Office
- Address independent evaluator's recommendation that OBSI be better empowered to secure redress for investors

Deliver effective compliance, supervision and enforcement

The OSC will deliver effective compliance oversight and pursue fair, vigorous and timely enforcement

- Protect investors and foster confidence in our markets by upholding strong standards of compliance with our regulatory framework
- Actively pursue timely and impactful enforcement cases involving serious securities laws violations
- Increase deterrent impact of OSC enforcement actions and sanctions through a more visible and active collection strategy

Deliver responsive regulation

The OSC will identify important issues and deal with them in a timely way

- Identify opportunities to reduce regulatory burden while maintaining appropriate investor protections
- Work with fintech businesses to support innovation and promote capital formation and regulatory compliance
- Actively monitor and assess impacts of recently implemented regulatory initiatives
- Implement the orderly transfer of syndicated mortgage investments to OSC oversight

Promote financial stability through effective oversight

The OSC will identify, address and mitigate systemic risk and promote stability

- Enhance OSC systemic risk oversight
- Promote cybersecurity resilience through greater collaboration with market participants and other regulators on risk preparedness and responsiveness

Be an innovative, accountable and efficient organization

The OSC will be an innovative, efficient and accountable organization through excellence in the execution of its operations

- Enhance OSC business capabilities
- Work with the Capital Markets Regulatory Authority (CMRA) partners on the transition of the OSC to the CMRA

Introduction

We are pleased to present the Chair's Statement of Priorities for the Commission for the year commencing April 1, 2017. The Securities Act (Ontario) requires the OSC to publish the Statement of Priorities in its Bulletin and to deliver it to the Minister by June 30 of each year. This Statement of Priorities also supports the OSC's commitment to be both effective and accountable in delivering its regulatory services.

This Statement of Priorities sets out the OSC's strategic goals and the specific initiatives that the OSC will pursue in support of each of these goals in 2017-2018. The Statement of Priorities also describes the environmental factors that the OSC has considered in setting these goals.

It is important to note that the majority of OSC resources are focused on delivering the core regulatory work (authorizations, reviews, compliance and enforcement) undertaken by the OSC to maintain high standards of regulation in Ontario's capital markets.

OSC Vision

To be an effective and responsive securities regulator – fostering a culture of integrity and compliance and instilling investor confidence in the capital markets.

OSC Mandate

To provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in capital markets.

OSC Goals

Confidence in fair and efficient markets is a prerequisite for economic growth. The OSC regulates the largest capital market in Canada and our actions have impacts for Ontario and the rest of Canada. The OSC is committed to promoting safe, fair and efficient markets in Ontario and has identified a broad range of initiatives to improve the regulatory framework. We must anticipate problems in the market and act decisively in order to promote public confidence in our capital markets, protect investors, and support market integrity. We will continue to proactively identify emerging issues, trends, and risks in our capital markets.

Investor protection is always a top priority for the OSC. The OSC will continue to rely on investor advocacy groups and the Investor Advisory Panel as important sources of insight to help the OSC better understand investor needs and interests.

The OSC continues to make strong advances in moving its regulatory agenda forward, improving the way it approaches its work and engaging industry participants, investors and other regulators to better understand their issues and concerns. Our recent Launchpad initiative is an example of developing a collaborative approach to respond to emerging issues. These actions are essential to reach solutions that balance promoting innovation and competition while maintaining appropriate investor safeguards.

The OSC works as part of the Canadian Securities Administrators (CSA) to harmonize rules and their application across the country to facilitate business needs. The OSC is working with the Ontario government and the OSC's counterparts in other participating jurisdictions to develop a harmonized regulatory approach and seamless transition to the CMRA.

Our Environment

Our regulatory framework is designed to provide protection to investors while fostering fair and efficient capital markets. Many factors can affect public confidence in our capital markets. The OSC faces a wide range of issues, risks and opportunities as it strives to achieve its vision and mandate.

Ontario investors continue to contend with a low interest rate environment. Interest rates remain low by historical standards and will continue to challenge Canadian seniors to achieve sufficient investment returns for their retirement. While healthy capital markets have afforded solid investment returns, it is unclear how long this will last. Higher rates are likely and may pose risks to capital markets and investors as they adjust to these conditions.

Investors will likely continue to seek opportunities to maximize yield on their investments, or capital appreciation, and these expose them to changing investment risks and rewards.

Key challenges and issues that may influence the OSC's policy agenda, its operations, and the way it uses its resources, are as follows.

Changing demographics and investor needs

Demographics are critical to understanding investor needs and are a key driver of most investor-focused issues. Different investor segments (e.g., seniors, millennials) have different investment horizons and objectives. In particular, the need for retirement planning has increased, as the responsibility for saving and investing continues to shift from employer-sponsored plans to the individual.

The demand for accessible and affordable advice that meets individual investor needs is expected to increase. A well-functioning investor/advisor relationship remains critical to the economic well-being of Ontarians and ultimately to achieving healthy capital markets.

Globally, there is a movement toward better aligning the interests of firms and advisors with the expectations of investors. Increasing focus is being placed on the cost of advice, fee structures, incentives and conflicts of interest. Firms are under pressure to align their cultures and conduct more closely with investor needs and desired outcomes.

Growing importance of investor education

Investor education has the potential to contribute to improved financial outcomes for investors and is an important component of investor protection.

As individuals take on increased responsibility for investing, they are challenged to achieve sufficient returns to finance future needs. At the same time, the financial marketplace continues to evolve and innovate, and investment products and services are becoming increasingly complex and diverse. These issues are magnified when there are wide gaps in the levels of experience and financial literacy among investors. The ability to achieve meaningful advancements in financial literacy will be a key to strengthening investor protection. Investors with a greater level of understanding of financial concepts will be better able to make informed investment decisions and avoid fraud.

Investors will always be at risk for potential losses from improper or fraudulent interactions. A number of jurisdictions are looking at ways to improve investor access to redress in these types of situations. Avenues for investor redress, including an effective and fair dispute resolution system, are increasingly being included as an element of investor protection frameworks.

The OSC will need to continue to seek new and innovative ways to deliver investor education and support retail investors in today's complex investing environment.

Globalization

Recent geopolitical events highlight the fact that the regulatory environment can change very quickly. The potential impact of continuing changes in the international environment, such as Brexit, decisions by the new US administration, and changing trade relationships could have profound impacts on financial regulation globally.

The increasing globalization of the capital markets underscores the importance of regulatory alignment both domestically and internationally. The sustained growth of cross-border activities means that the OSC must deal with regulatory matters that have both national and international dimensions. Our international involvement informs how we regulate Ontario's capital markets. Our goal is to promote domestic regulation that is aligned with international standards, while reflecting the unique needs of our markets.

The global interconnectedness of markets and mobility of capital create a strong need for harmonization and coordination of regulation. However, the potential for increased protectionism and de-regulation could inhibit global harmonization and create opportunities for regulatory arbitrage. In light of such developments, the OSC may face pressure from certain stakeholders to scale back areas of regulation making it increasingly important for the OSC to address concerns of undue regulatory burden.

Technology threats and opportunities

Technological innovation, including the advancement of "fintech", continues to disrupt and transform our capital markets. Fintech refers to a variety of innovative business models and emerging technologies that have the potential to transform the financial services industry.

Evolving market channels, such as automated financial advice, are redefining the delivery of client wealth management services and the fees charged for advice. Fintech is being enabled by the growth of low cost computing power, greater availability of data and the emergence of technologies, such as artificial intelligence and machine learning.

Regulators may face challenges addressing fintech developments while fulfilling their regulatory mandates to promote investor protection, market fairness and financial stability. For example, some fintech business models, such as online advice, remove the intermediary in providing financial advice to investors. Trading and investing in securities through fintech-enabled firms is often self-directed and can pose risks to investors making decisions without adequate information. While these advances can create opportunities to achieve better outcomes for investors, they also present potential risks and vulnerabilities, including programming errors in the algorithms that underlie automation, cybersecurity breaches, and the inability of investors to understand novel products and services.

Growing dependence on digital connectivity and data collection and analysis creates challenges and growing risks for businesses, market participants and regulators, and raises potential exposure to disruptions, including cyber-attacks. Cyber-attacks are inevitable and will have the potential to disrupt our markets and market participants. The OSC, working with other regulatory partners, has an important role to play in assessing and promoting readiness and supporting cybersecurity resilience within the financial services industry and raising awareness of cybersecurity risks.

Systemic risk and financial stability

The OSC works with many domestic and international regulators to monitor financial stability risks and trends, improve market resilience, and reduce the potential risk of global systemic events. The OSC is continuing to build out a domestic derivatives framework and to operationalize the necessary compliance and surveillance tools required to achieve a practical and effective regime.

As part of their review of market stability issues, financial system regulators are examining the need for companies to disclose exposure to economic, environmental and social sustainability risks, including climate change. The Financial Stability Board (FSB) has established a Task Force on Climate-related Financial Disclosures to develop a set of recommendations for consistent, comparable, reliable, clear and efficient climate-related disclosures by companies. The OSC will continue to monitor these developments to determine the need for a regulatory response.

Enforcement and compliance tools

Strong compliance and enforcement are essential to maintaining the integrity and attractiveness of our capital markets. Disruption of illegal activity and deterrence are key strategies in order to prevent or limit harm to investors. Our actions against firms and individuals who do not comply with the rules need to be strong and visible in order to achieve the desired deterrent effect and enhance public confidence in our markets.

As securities fraud and misconduct become increasingly complex, regulators must evolve their compliance and enforcement approaches and expand their tools. Technology, in particular, is enabling growth in cross-border activities that are detrimental to investors and very difficult to address. This creates challenges in supervision, surveillance and enforcement. If regulatory approaches are not aligned, cross-border supervision and enforcement efforts can be impeded. Regulators will need greater access to data and more sophisticated surveillance and analysis tools to more effectively evaluate compliance with regulatory requirements and identify misconduct.

Regulatory balance

Securities regulators continue to face pressure to reduce regulatory burden. As the complexity of regulatory requirements increases, market participants often require greater resources to ensure compliance. The need for a cost-effective regulatory framework, with proportionate regulation that supports innovation and competition – while maintaining appropriate investor protections – is critical.

Both over-regulation and under-regulation can dampen innovation and undermine the competitiveness of our capital markets. The OSC will need to continue to collaborate with its stakeholders to develop appropriate rules and oversight that protect investors without imposing unnecessary regulatory burden on firms. We will also need to seek opportunities where technology can be used to make compliance easier and more cost effective.

OSC operations

A focus on our staff continues to be important for the OSC. Attracting, motivating and retaining top talent in a competitive environment is a challenge and key to delivering on our mandate. We are increasing our investments in data and information systems to provide the right tools and training to leverage the talents of our people.

Deliver strong investor protection

The OSC will champion investor protection, especially for retail investors

The OSC remains strongly committed to investor protection and is continuing to expand its efforts to strengthen investor protection through various investor-focused initiatives. Investors need to be confident in the fairness of the market, have trust and confidence in their advisors and understand the products in which they invest.

The OSC continues to support the work of its independent Investor Advisory Panel, which solicits and represents the views of investors on the OSC's policy and rule-making initiatives. The initiatives set out below will advance achievement of the OSC's investor protection mandate.

Our Priorities

Publish regulatory reforms to define a best interest standard and targeted reforms to improve the advisor/client relationship

Access to affordable, high quality and unbiased investment advice continues to be a core investor expectation. The OSC will continue to work on key initiatives to improve the advisor/client relationship and address issues, such as incentive structures, that may hinder the alignment of interests between advisors and investors. Improvements to the culture of compliance in financial services businesses will remain a focus as weaknesses in these areas can result in inappropriate advice and unsatisfactory investor outcomes. Investor trust and confidence in the financial system is critical and can only be attained when achievement of investment objectives is a mutually shared outcome for advisors and investors.

The actions include:

- Continue to obtain input to inform regulatory proposals from stakeholders
- Publish policy direction on regulatory reforms required to improve the advisor/client relationship
- Publish rule proposals for comment:
  - Regulatory provisions to create a best interest standard
  - Targeted regulatory reforms and/or guidance under NI 31-103 – *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103) to improve the advisor/client relationship
- Conduct a regulatory impact analysis of proposed regulatory provisions to create a best interest standard and targeted regulatory reforms and/or guidance under NI 31-103 to improve the advisor/client relationship

Define regulatory actions needed to address embedded commissions

Work with the CSA to review and evaluate stakeholder feedback received through both the written comment process and in-person consultations on CSA Consultation Paper 81-408 – *Consultation on the Option of Discontinuing Embedded Commissions*

- Conduct a stakeholder roundtable to:
  - Examine the potential impacts of discontinuing embedded commissions in Canada
  - Identify appropriate transition measures
- Present policy options and recommendations to the Commission and CSA Chairs

Advance retail investor protection, engagement and education through the OSC's Investor Office

Investor protection is at the core of everything the OSC does, and we are committed to improving outcomes for investors through policy, research, education and outreach initiatives led by our Investor Office. The OSC Investor Office is committed to developing evidence-based policy and programs.

The Investor Office will work with the Seniors Expert Advisory Committee (SEAC) and engage with investors in new and innovative ways to obtain a better understanding of investor issues and needs across various investor demographics, including seniors, millennials and new Canadians.

The Investor Office will continue to build the OSC's understanding and capacity in the behavioural insights area and work with relevant OSC staff to identify options to apply these concepts in OSC policy development and operational processes.

Actions will include:

- Support older investors through education and outreach
- Publish a behavioural insights research report
- Publish an OSC Seniors Strategy

Address independent evaluator's recommendation that OBSI be better empowered to secure redress for investors

The OSC continues to believe that investors should have access to an effective and fair dispute resolution system as a central component of the investor protection framework.

In 2016, an independent evaluator published the results of a review of the Ombudsman for Banking Services and Investments (OBSI) operations and practices under its investment mandate. The report set out 19 main recommendations, including a recommendation that OBSI be better empowered to secure redress for investors. The OBSI Joint Regulators Committee will analyze the review's findings and recommendations, the views of OBSI's leadership, along with stakeholder input in determining what steps the OSC or CSA should consider in response.

Actions will include:

- With the OBSI Joint Regulators Committee, develop a regulatory response to the recommendations in the independent evaluator's report, particularly the recommendation for binding decisions

Measures of Success

- Focused consultations on a proposed best interest standard and guidance completed
- Rule proposals setting out regulatory provisions to create a best interest standard published for comment
- Regulatory reforms required to improve the advisor/client relationship published for comment
- Stakeholder roundtable focused on examining the impacts of discontinuing embedded commissions completed. Issues identified, assessed and recommendations finalized
- OSC Seniors Strategy provides roadmap to provide targeted approaches to address seniors' issues
- Investors make better investment choices due to expanded education and outreach efforts
- Pilot projects for behavioural insights testing developed and key learnings integrated into OSC activities
- Response to OBSI independent evaluator's recommendations published

Deliver effective compliance, supervision and enforcement

The OSC will deliver effective compliance oversight and pursue fair, vigorous and timely enforcement

Effective registration and compliance oversight programs combined with timely enforcement help to deter misconduct and non-compliance by registrants and market participants. The OSC is committed to improving the efficiency and effectiveness of its compliance and enforcement processes and will protect the interests of investors by taking action against firms and individuals who do not comply with Ontario securities law.

The OSC will focus compliance efforts on higher risk areas and potential abusive practices by capital market participants that harm investors and decrease confidence in our capital markets. Our compliance work will be targeted through better use of data and reviews will continue to be focused on high risk and new registrants. We will also conduct targeted prospectus and continuous disclosure reviews of issuers, investment funds and structured products as they respond to market developments and engage in product innovations. The OSC will focus on preventing non-compliance and misconduct within our capital markets by proactively identifying registrants and issuers whose operations or structures may pose risks to retail investors and taking appropriate regulatory action. We will publish OSC staff guidance as warranted. Our actions need to be visible and better understood by market participants and the public in order to achieve the desired deterrent effect.

The OSC will seek to improve the efficiency and timeliness of its enforcement work through targeted case selection and co-ordinated multi-branch processes to increase early detection of breaches of securities laws. The OSC will continue to rely on stronger enforcement mechanisms such as our quasi-criminally focused Joint Serious Offences Team (JSOT) program to identify serious breaches of Ontario securities law. The OSC will continue to work with national and international enforcement regulators to enhance communication and collaboration and develop a comprehensive response to emerging market issues.

Recently introduced enforcement tools such as no-contest settlements and Whistleblower submissions will continue to be used to obtain swifter enforcement outcomes in areas that are otherwise difficult to detect.

The OSC continues to face collection challenges as some assets may be non-existent or very difficult to retrieve. The OSC needs to demonstrate that it will vigorously pursue the collection of penalties and fines in order to maximize the intended deterrent impacts of its sanctions.

Our Priorities

Protect investors and foster confidence in our markets by upholding strong standards of compliance with our regulatory framework

- Maintain effective oversight of registrants by focusing on new registrants, higher risk firms and emerging risks

Actively pursue timely and impactful enforcement cases involving serious securities laws violations

- Raise awareness of the OSC Whistleblower Program including:
  - Promoting better understanding of the anti-retaliation protections for whistleblowers
  - Developing a more proactive outreach program to reach potential high-value whistleblowers
- Improve the efficiency and effectiveness of our enforcement efforts through greater use of technology, including working with the CSA to develop a new market analytics platform for investigations
- Reduce enforcement timelines by streamlining investigative and prosecution processes

Increase deterrent impact of OSC enforcement actions and sanctions through a more visible and active collection strategy

- Assess collection alternatives and pilot an improved collection approach
- Publish results of new collection process

Measures of Success

- Complete reviews of high-risk firms and continue the "Registration as a First Compliance Review" program
- Continue focused reviews targeting issues relevant to seniors and suitability, the expanded exempt market rules, online dealer platforms, derivative trade repositories, fund expenses and funds with large holdings in illiquid securities
- Publish Annual Summary Report for Dealers, Advisers and Investment Fund Managers that includes key findings and trends from compliance reviews
- Enhanced OSC Whistleblower program profile results in measureable increases in the number of credible tips and cases initiated
- Increased deterrence of misconduct in areas targeted for priority enforcement actions
- Enhanced market analytics capability will generate more timely, accurate and actionable information and improved enforcement outcomes
- Greater alignment between cases and OSC strategic priorities, including better focus on cases that pose the greatest risks to Ontario capital markets and investors
- Improved collection strategy increases the deterrent impact of OSC enforcement actions
- Results of collections pilot published

Deliver responsive regulation

The OSC will identify important issues and deal with them in a timely way

The increased pace of regulatory change experienced over the last few years is expected to continue as market structures and products evolve and become increasingly complex. In the face of rapid innovation and technological changes we must strive to remain abreast of regulatory challenges and developments and adapt quickly in order to maintain healthy and competitive capital markets.

Active participation in international regulatory forums remains a key component to maintaining a responsive regulatory framework. The OSC participates as a member of IOSCO and engages with other key regulatory authorities to develop international regulatory standards. Through these efforts the OSC helps to shape regulatory responses that are aligned with and reflect the needs of the Canadian capital markets and its participants.

Our Priorities

Identify opportunities to reduce regulatory burden while maintaining appropriate investor protections

The OSC is mindful of the impact of regulatory burden on market participants and recognizes the need to actively pursue opportunities to alleviate that burden without impeding the ability of the OSC to fulfill its responsibility to protect investors.

Together with our CSA partners, we are seeking feedback from market participants and stakeholders to identify specific areas of securities legislation that may duplicate other requirements, may not be achieving our regulatory objectives, or where the regulatory burden may be disproportionate to the regulatory objectives that are achieved.

The OSC is also examining ways to make it easier and less costly for firms to interact with regulators. Potential areas to reduce regulatory burden in the public markets include:

- Expanding application of streamlined rules for smaller reporting issuers
- Simplifying prospectus rules and process requirements
- Reducing ongoing disclosure requirements
- Removing redundant and ineffective disclosure and reporting requirements for investment funds
- Eliminating overlap in regulatory requirements, and
- Identifying ways to enhance electronic delivery of documents

Actions will include:

- Identify opportunities to reduce or eliminate redundant or unnecessary non-investment fund reporting issuer disclosure where current requirements are not achieving desired regulatory outcomes
  - With the CSA, publish a consultation paper
  - Review comments on the consultation paper
  - Publish recommendations
- Together with the CSA review investment fund regulation to:
  - Review options for streamlined disclosure and determine potential impacts on affected stakeholders, including investors, dealers and their SROs, and regulators and their informational requirements
  - Recommend options for disclosure reductions

Work with fintech businesses to support innovation and promote capital formation and regulatory compliance

The emergence of fintech has occurred rapidly, causing disruption in the financial services industry. The development of innovative business models, including online advisers, online lenders and crowdfunding platforms, has already resulted in substantial changes to the relationship among regulators, investors and intermediaries. Fintech represents a significant challenge for regulators to respond to and support the pace of innovation.

OSC LaunchPad, launched in October 2016, engages with the fintech community, provides the opportunity for support in navigating regulatory requirements and strives to keep regulation in step with digital innovation. In January 2017, the OSC announced the membership of its new Fintech Advisory Committee (FAC), which will advise the OSC LaunchPad team on developments in the fintech space as well as the unique challenges faced by fintech businesses in the securities industry.

The OSC is committed to supporting fintech businesses by providing the opportunity to flourish while ensuring compliance with our regulatory requirements.

Actions will include:

- Support fintech innovation through OSC LaunchPad by:
  - Engaging with the fintech community to identify and understand any regulatory barriers, trends and gaps
  - Offering direct support to eligible businesses in navigating the regulatory environment
  - Integrating learnings into the regulation of similar business models going forward
- Participate in the recently announced CSA Regulatory Sandbox that is designed to allow firms to test novel products and services without full regulatory approval in a way that also provides investor protection
- Collaborate with the Fintech Advisory Committee, as well as the CSA and other regulators including, the Australian Securities and Investments Commission and the Financial Conduct Authority in the UK, to obtain insight and input regarding fintech innovation and support these businesses in Canada and globally

Actively monitor and assess impacts of recently implemented regulatory initiatives

As technology and capital markets evolve, our approach to regulation needs to adapt to address these changes. The OSC has undertaken initiatives, such as changes to the exempt market regulatory regime and the review of the market structure regulatory framework, to promote efficient markets, protect investors and maintain investor confidence. The OSC's focus in these areas will shift to monitoring and assessing whether existing measures are achieving their expected regulatory outcomes or if further regulatory responses are needed.

The OSC will also continue to review recently implemented regulatory reforms to assess whether expected results are being achieved. In the case of disclosure relating to women on boards and in executive officer positions – the actions will include:

- Conduct targeted review of disclosure provided by issuers with financial years ending from December 31, 2016 to March 31, 2017
- Assess the effectiveness of the disclosure and consider whether other regulatory action is needed

Implement the orderly transfer of syndicated mortgage investments to OSC oversight

Syndicated mortgages are mortgages that are funded by multiple investors. Mortgage brokers and agents licensed with the Financial Services Commission of Ontario (FSCO) can engage in syndicated mortgage transactions with investors using registration and prospectus exemptions. Concerns have been raised about the current regulatory framework, including in a 2016 expert report reviewing the mandate of FSCO. On April 27, 2017, the Ontario government announced its plan to transfer regulatory oversight of syndicated mortgage investments from FSCO to the OSC.

Actions will include:

- Work with the Ontario government and FSCO to plan and implement an orderly transfer of the oversight of syndicated mortgage products to the OSC

Measures of Success

- Staff notice on women on boards and in executive officer positions published that sets out:
  - Results of the targeted review
  - An update on any potential need for further disclosure requirements
  - The relevant disclosure data of issuers with financial years ending December 31, 2016 to March 31, 2017
- Staff notice published summarizing capital raising activity in the exempt market including use of recently introduced capital raising prospectus exemptions
- Time-to-market of novel businesses reduced, by taking a flexible, risk-based approach to the regulation of novel fintech businesses, while maintaining appropriate investor safeguards
- Capital formation and innovation supported through LaunchPad
- CSA Regulatory Sandbox provides expedited registration and exemptive relief processes for emerging firms
- Consultation paper on options for regulatory burden reductions published, comments reviewed and an update on next steps published
- Transition plan for the transfer of syndicated mortgages to OSC oversight developed. Proposed rule amendments published for comment

Promote financial stability through effective oversight

The OSC will identify, address and mitigate systemic risk and promote stability

Capital markets are increasingly interconnected by technology, business models and investment flows and this creates potential for global systemic risk. The OSC works with other regulators and market participants to monitor financial stability risks and the resilience of financial markets. Through these actions the OSC is better able to understand points of integration and identify potential risks to monitor and mitigate.

Our Priorities

Enhance OSC systemic risk oversight

The OSC plays a strong leadership role within the International Organization of Securities Commissions (IOSCO). OSC staff chair the IOSCO committees focused on Regulation of Secondary Markets and Emerging Risks. The OSC also engages with domestic and international regulators including other securities commissions, the Bank of Canada, the Financial Stability Board (FSB), and the Bank of International Settlements on current and emerging topics such as digital innovation. Continued active OSC participation is necessary to remain abreast of emerging regulatory developments on important issues such as changing standards and systemic risk.

The OSC will continue to enhance its internal identification and monitoring of trends and risks across various market segments and participants including – equities, fixed income, OTC derivatives, trading platforms, clearing agencies and derivatives dealers. Identifying emerging risks in a timely manner leads to a better understanding of the key components of systemic risk and how they interact.

Actions will include:

- Providing strong leadership within IOSCO and supporting activities to promote sound international regulatory standards and guidelines that are aligned with key areas of risk
- Enhance OTC derivatives oversight and systemic risk monitoring and operationalize the regulatory framework that has been implemented by:
  - Continuing collection and analysis of trade data
  - Publishing a Staff Notice on key trade reporting compliance audit findings and areas for improvement
  - Developing a framework for monitoring systemic risk in the OTC derivatives markets
- Enhance OTC derivatives regulatory regime by:
  - Implementing data analysis for systemic risk monitoring and market conduct purposes, including the development of trade reporting analytical tools
  - Conducting audits on a sample of derivatives dealers and publishing Staff Notices on the findings and areas for improvement
  - Implementing rules for clearing, segregation and portability of cleared OTC derivatives
  - Publishing proposed rules for market conduct and registration of derivatives dealers, completing consultations, reviewing comments, revising proposed rules and conducting a roundtable
  - Publishing a margin for uncleared derivatives rule and reviewing comments
- Continued development of internal capabilities to identify and monitor market trends and risks, including increased access to data and analytical resources as well as gathering views of stakeholders

Promote cybersecurity resilience through greater collaboration with market participants and other regulators on risk preparedness and responsiveness

Advances in technology and access to data support growth in innovative approaches to deliver financial services. However, increased reliance on technology poses risks such as data breaches and increased exposure to disruptions. The increase in the number and sophistication of cyber-attacks poses a major and growing risk for market participants and regulators. Other more public impacts can include theft of sensitive or personal financial information and investor losses. Successful cyber-attacks can undermine investor confidence. The OSC will continue to promote and support determined efforts by market participants to maintain and improve their cyber defenses and resilience to respond to cyber-attacks.

Actions will include:

- Continue to assess the level of market participant cybersecurity resilience and monitor cyber readiness
- Follow up on recommendations from cybersecurity roundtable

- Review results of the registrant cybersecurity survey and determine next steps

Measures of Success

- Enhanced systemic risk data collection and analysis supports effective oversight and supervision of OTC derivatives markets
- More accurate trade reports support better analysis of systemic risk
- Registration and conduct rules reduce risk and promote responsible market conduct in the OTC derivatives markets
- Key risk areas identified and communicated to market participants including registrants
- Improved cybersecurity awareness through ongoing oversight of risk preparedness and resilience

Be an innovative, accountable and efficient organization

The OSC will be an innovative, efficient and accountable organization through excellence in the execution of its operations

The OSC is committed to becoming a more proactive and agile securities regulator. Improving our efficiency and effectiveness remains a top priority.

The OSC is committed to greater use of technological tools to enhance our ability to monitor and assess market activity. We are incorporating technology and more sophisticated analytical tools to improve the efficiency and quality of our work. We are increasing our use of research, risk and data analysis to support a more disciplined approach to identifying market issues and developing policy and decision-making. The OSC is working with the CSA to develop modern, more easily configurable systems to replace the current CSA national systems.

Just as market participants must evolve to meet competition from new business models and technology enabled service offerings, the OSC must also improve its business capabilities to maintain a supportive and effective regulatory environment. Proactive regulatory solutions, such as the recently implemented Launchpad initiative, are examples of how regulators can support innovation and capital formation. We will continue to seek similar opportunities to improve our regulatory effectiveness.

Our Priorities

Enhance OSC business capabilities

- Work with the CSA to renew CSA national systems to improve usability and address new regulatory requirements
- Develop a comprehensive data management strategy that will provide the foundation for increased reliance on data management and analytics to support risk and evidence-based decision making
- Foster a dynamic, supportive and attractive workplace
- Actively recruit new skills required to improve our regulatory capacity to meet current and future challenges

Work with the Capital Markets Regulatory Authority (CMRA) partners on the transition of the OSC to the CMRA

The OSC continues to view the CMRA as an opportunity to enhance investor protection, foster efficient rulemaking and promote globally competitive markets in Canada. The OSC is working with the Ontario government and the OSC's counterparts in other participating jurisdictions to develop a harmonized regulatory approach and seamless transition to the CMRA. While engaging in the considerable work required to transition to the CMRA, the OSC will maintain an engaged and effective regulatory presence including a cooperative interface with the CSA.

Actions will include:

- Continue to work with participating jurisdictions and Capital Markets Authority Implementation Organization

Measures of Success

- New CSA national systems will improve ease of use, security and adaptability to new business requirements and technology
- Use of research and risk analysis reflected consistently in OSC policy initiatives and OSC publications
- New skill gaps identified and addressed, and staff turnover and retention within target ranges
- The OSC is ready and able to transition into the new CMRA organization

2017 – 2018 Financial Outlook

OSC Revenues and Surplus

The OSC is forecasting 2017–2018 revenues to be slightly lower (3.5%) than 2016–2017 actual revenues. The forecast reflects fee rates set out in the OSC's fee rules (13-502 and 13-503), which became effective April 6, 2015. We expect participation fees for 2017-2018 to be in line with 2016-2017 results as fee rates are set until March 31, 2018 and we do not expect market changes to have a significant impact. Activity fees and late fees are expected to be lower than 2016-2017 as there is uncertainty on the level of issuer and registrant activity.

The OSC expects to have a deficit of $1.9 million in 2017–2018 which will reduce the 2016-2017 ending surplus of $40.6 million, for a total surplus of $38.7 million as at March 2018. When the fee rules were developed and published in 2015, the OSC advised that they would be relatively revenue neutral over the three-year period, with an expected surplus in 2015–2016, a smaller surplus in 2016–2017 and a deficit in 2017–2018. This is because revenues were expected to be relatively flat over the term of the rule, while expenses were expected to increase each year. The budget approved by the OSC Board for 2017–2018 is in line with this expectation. Actual expenses for each of 2015–2016 and 2016–2017 were lower than projected which has increased the surplus.

Fee rates will be reviewed in fiscal 2018 and the existing surplus will be taken into account in determining new rates. Other factors to be considered when reviewing the level of surplus and fee rates are the projected level of expenses, any projected capital expenses and the level of cash resources required to provide an adequate cash safety margin.

2017 – 2018 Budget Approach

Our regulatory framework needs to remain current and responsive to the continuing evolution of market structures and products and be supportive of capital formation in Ontario. The OSC must carefully balance the desire to improve access to capital with the need to retain appropriate investor protections. The 2017–2018 SoP sets out the OSC's key priorities to meet these challenges. Achievement of these priorities is a key driver of the increases to the 2017–2018 OSC budget as this will require focused investments in the following areas:

- Continuation of LaunchPad and Whistleblower program and anticipation of increased resources needed for syndicated mortgages
- Continuation of the data management program
- Continuation of technology modernization including eDiscovery and eHearing replacement
- Workforce stabilization and retention strategy through increase in benefits and salary compensation.

The budget reflects an increase in expenses of 4.9% from the 2016–2017 budget and 8.5% from actual 2016–2017 spending. Salaries and benefits, which comprise $86.1 million or 73% of the budget, represent an increase of $4.2 million or 5.1% over 2016–2017 spending. The key reasons for this increase are:

- Approval of new positions to support the investments noted above
- The impact of the full year costs of the positions filled in the prior year.

The OSC continues to maintain fiscal responsibility in its operating areas as evidenced by the underspending noted in the prior year and the fact that budget amounts will remain relatively flat in approximately 65% of its operating branches in the 2018 plan.

The capital budget, essentially flat as compared to 2016–2017 spending, primarily reflects the cost to support the OSC's information technology needs.

Excess/Deficiency of Revenues over Expenses (in millions)	2016 – 2017 Actual	2017 – 2018 Budget	Year Over Year Changes	
Revenues	$119.9	$115.8	($4.1)	(3.5%)
Expenses	$108.5	$117.7	$9.2	8.5%
Excess (Deficit) of Revenues over Expenses	$11.4	($1.9)	($13.3)	(116%)
Capital Expenditure	$2.7	$2.7	$0	0%